

Comments of Southern California Edison
FERC MD02 Technical Conference
*Implementation Issues Related to Locational Marginal Pricing and Grid
Congestion Management with Congestion Revenue Rights*
November 6, 2003

Southern California Edison (SCE) would like to thank FERC for the opportunity to provide comments on the issues related to the implementation of Locational Marginal Pricing (LMP) and Congestion Revenue Rights (CRRs). SCE believes that continued dialogue between stakeholders will help to ensure timely implementation of the CAISO's revised market design. I would like to make three points:

- 1) SCE supports LMP as a proven method for efficiently managing and pricing congestion, and a critically needed solution to existing costly problems associated with intra-zonal congestion in the CAISO grid.
 - Focus should now shift from considering LMP to implementing LMP
- 2) While LMP provides important price signals for short term operating decisions, it should be recognized that LMP is not the most significant factor driving new transmission investment due to the long lead time for major infrastructure additions.
 - Transmission investment must be stimulated by (1) clear responsibility for providing new transmission, (2) assured recovery of prudent costs, including abandoned projects authorized by an independent planning process, and (3) equal opportunity for all regulated transmission utilities to receive incentives for new investment

- 3) Load serving entities must be allocated sufficient CRRs to mitigate congestion cost risks faced by customers who pay for the transmission grid
- SCE strongly endorses FERC's finding that the CAISO's proposal to allocate CRRs to LSEs is reasonable
 - However, the focus needs to shift to improving the CAISO CRR allocation methodology
 - Although SCE supports increased forward energy contracting, it is premature to know whether or not CRRs will sufficiently hedge forward congestion cost risk until CAISO completes development of its CRR allocation proposal
 - Therefore, we support FERC's directive to the CAISO to complete and publish results of its proposed CRR allocation process before a definitive ruling on the CAISO's CRR proposal can be made
 - SCE has actively participated in the CAISO's preliminary CRR allocation study process
 - While we realize the results are preliminary, we have significant concerns with the study assumptions and results to date
 - Two key issues in CRR allocation study include:
 - The objective function for allocating the limited amount of CRRs needs to be reexamined; the CAISO's current "shift factor" approach does not take into account the value of CRRs and therefore the financial impacts on consumers
 - The treatment of existing transmission contracts in the CRR allocation process must not discriminate against other load serving entities

Thank you for the opportunity to provide these brief comments.